

NBC LIMITED
REPORT AND ACCOUNTS
AT 31 DECEMBER 2005

NBC LIMITED
TABLE OF CONTENTS

ITEM	PAGE (S)
Directors Report	2-5
Key Performance Indicators	6
Statement of Directors responsibility	7
Report of the Auditors	8
Income Statement	9
Balance Sheet	10
Cash Flow Statement	11
Statement of changes in shareholders' funds	12
Notes to the financial statements	13-32

NBC LIMITED
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

1. The Directors present this report and the audited financial statements for the year ended 31 December 2005.

2. **NATURE OF BUSINESS**

The company is engaged in the business of banking and the provision of related financial services.

3. **RESULTS AND DIVIDEND**

During the year, the bank had attributable income of Tzs 18,004 million (2004 - Tzs 10,951 million). The audited financial statements for the year are set out on pages 9 to 32.

The Board of Directors proposes a dividend of Tzs 3.0 billion (2004 –Tzs 4.5 billion).

4. **DIRECTORS**

The directors, who served during the year and up to the date of this report, were:

Name	Nationality	Date of appointment / resignation
Mary Ellen Iskenderian**	American	
Ami Mpungwe**	Tanzanian	
Blandina Nyoni**	Tanzanian	
Charles Nyirabu** (Chairman)	Tanzanian	Deceased 27/11/2005
Johann Schreuder*	South African	
Johann de Wet*	South African	
Christo de Vries* (Managing Director)	South African	
Frans du Toit**	South African	
Nazir Karamagi**	Tanzanian	
Peter Mageza**	South African	

* Executive Director

** Non –Executive Director

The company secretary during the year ended 31 December 2005 and up to the date of this report was Godson Kiliza.

5. **CORPORATE GOVERNANCE**

The directors believe that high standards of corporate governance directly influence the organisation's stakeholder and investor confidence. The directors also recognise the importance of integrity, transparency and accountability. The board of NBC Limited has the following board sub-committees to ensure a high standard of corporate governance throughout the bank:

- Audit, risk and compliance committee;
- Lending committee; and
- Remuneration committee.

6. RISK MANAGEMENT

The Board of Directors is ultimately responsible for any loss suffered by the bank. Risk taking, in an appropriate manner is an integral part of business. Success relies on optimising the trade-off between risk and reward. In the course of conducting its business, the bank is exposed to a variety of risks, including credit, market, operational, strategic and reputation risk.

The bank's risk management approach is that:

- All risks must be identified and managed, and that the returns must be commensurate with the risks taken, relative to the bank's risk appetite;
- The effectiveness of risk management processes is ensured through formal governance and comprehensive regular reporting processes in a well-defined control environment; and
- It is the responsibility of each individual, relative to their position, to identify themselves with the declared priority of risk management, to recognise real or anticipated risk and to take appropriate action.

Risk management is guided by several principles, the most important being:

- The assignment of appropriate responsibility and accountability for all risks and resulting returns;
- The adoption of a framework for integrated risk management which applies across all business units and all risk types for the protection of the bank's reputation;
- Comprehensive risk assessment, measurement, monitoring and reporting;
- Independent review; and
- Formal risk governance processes.

7. RELATED PARTY TRANSACTIONS

Related party transactions and balances are disclosed in note 27 to these financial statements.

8. SOLVENCY

At 31 December 2005, the bank's assets exceeded its liabilities by Tzs 56,354 million (2004 - Tzs 42,850 million). Consequently, it is solvent and able to meet its obligations in full. These financial statements have therefore been prepared on the going concern basis.

The bank has also met the Bank of Tanzania capital adequacy requirements.

9. EMPLOYEES' WELFARE

Management/employee relationship

Negotiations with the Trade Union of Industrial and Commercial Organisations (TUICO) were concluded with the signing of a Memorandum of Understanding on 3 November 2005. This brought to an end the recent industrial disputes.

The following agreements are in the process of being drafted: Voluntary Agreement, Recognition Agreement and Collective Bargaining Agreement. Management is confident that these agreements will be finalized and signed during the first quarter of 2006.

Training

During the year, training was given to members of staff based on the requirements of NBC. The training conducted was a blend of in-house and external training conducted by NBC staff as well as professional trainers.

Medical assistance

The bank pays all the medical expenses of each permanent employee and his/her immediate family. The bank has appointed Medex Tanzania, a specialist in the screening of medical claims, to administer the medical claims process.

Annual leave

Provision is made for accumulated leave. Half of each employee's annual entitlement may be accumulated and paid out subject to a maximum of 150 days.

Retirement benefits

All eligible employees are members of the Parastatal Pension Fund (PPF). The bank contributes 15% and the employees 5% of their basic salary to the fund. The fund is a defined contribution pension fund with the bank having no legal or constructive obligation to pay further top-up contributions.

Disabled employees

The company recruits disabled workers for those vacancies that they are able to fill successfully. All necessary assistance is given with initial training. A career plan is developed which ensures that opportunities for advancement are provided to each disabled person. A similar policy exists for employees who become disabled while in the company's employment.

10. DIRECTORS' INTEREST IN THE SHARES OF THE COMPANY

None of the directors of the company have shares in the issued share capital of NBC Limited.

11. SHAREHOLDERS OF THE COMPANY

Shareholders of the company are:

ABSA Group Ltd	55%
The Government of the United Republic of Tanzania	30%
International Finance Corporation	<u>15%</u>
	<u>100%</u>

12. DONATIONS TO POLITICAL PARTIES

No donations were made to any political parties during the financial year ended 31 December 2005.

13. PERFORMANCE

Balance Sheet

Loans and advances continued to grow at a steady rate with momentum picking up from the second quarter onwards. Growth for the year came to 56,4% resulting in total net advances of Tshs.278 billion.

The new deposit taking strategies took off above expectations and resulted in deposit growth of 43,4% for the year under review, resulting in a total deposit base of Tshs.533 billion.

Total assets grew by 36,4% ending on Tshs.628 billion. This was mostly fuelled by the growth in deposits.

Equity stands on Tshs.56 billion after a dividend of Tshs.4,5 billion was paid in March 2005, ensuring the bank is adequately capitalized against a statutory requirement of 10%.

Income Statement

Net interest margin on average interest bearing assets has increased from 7% in 2004 to 8%. This is mainly due to an increase in local money market yields, hard currency yields as well as the full effect of an upward re-pricing exercise on Loans and Advances performed during the last quarter of 2004. At the same time management succeeded in keeping cost of funds under control and therefore explaining the margin expansion.

Total non interest income exceeded targets mostly due to the exceptional performance from the forex trading desk and some revaluation profits being realized.

Non interest income expressed as a percentage of average assets came to 4,2% (4,6% – 2004). The downward trend in the ratio is due to the sharp growth in assets (also money market investments which do not earn fee income) and not due to the decline in non interest income.

The cost to income ratio shows a positive trend and has decreased significantly from 59.3% in 2004 to 51.5% currently. This is largely due to the strong growth in operating income and not due to a reduction in cost.

Net profit after tax came to Tshs.18,004 million, showing year on year growth of 64,4%. This resulted in a return on average capital of 37,8%.

14. AUDITORS

Following a change in the control of the Absa Group, the board regrets that KPMG are expecting to resign after the finalization of the 2005 accounts. The normal process of appointing new auditors will be followed, to be approved at the Annual General Meeting.

BY ORDER OF THE BOARD

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

Signed by:

Johann de Wet
Director

Date: 3 March, 2006

Christo de Vries
Managing Director

Date: 3 March, 2006

NBC LIMITED

**KEY PERFORMANCE INDICATORS
for the year ended 31 December 2005**

	2005	2004	Change %
Income Statement (Tzs m)			
Net Income after tax	18,004	10,951	64.4
Balance Sheet (Tzs m)			
Total assets	628,842	460,589	36.4
Total Advances	278,311	177,909	56.4
Total Deposits and Current Accounts	533,596	372,208	43.4
Financial Performance (%)			
Return on Average Equity	37.8	28.5	
Return on Average Assets	3.4	2.5	
Operating Performance (%)			
Net interest margin on average assets	6.6	5.6	
Net interest margin on average interest bearing assets	8.0	7.2	
Charge for impairment of advances to average advances	0.8	2.1	
Non- performing advances as % of total advances	2.3	3.0	
Non-interest income as % of operating income	38.1	41.2	
Cost to income ratio	51.5	59.3	
Share Statistics			
Number of shares in issue	1,000,000	1,000,000	
Earning per share	18,004	10,951	
Dividend per share	4,500	9,000	
Capital adequacy (%)			
As per Bank of Tanzania Regulation	14.5	16.7	

NBC LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Tanzania Companies Ordinance requires the directors to prepare financial statements, which give a true and fair view of the state of affairs of the company as at the end of each financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records, which disclose with reasonable accuracy the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards set by the International Accounting Standards Board and in the manner required by the Companies Ordinance. The directors are of the opinion that the accounts give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Signed by

Johann de Wet
Director:

Christo de Vries
Managing Director

Date: 3 March 2006

**REPORT OF THE AUDITORS TO THE MEMBERS OF
NBC LIMITED**

We have audited the financial statements set out on pages 9 to 32 which have been prepared on the basis of the accounting policies set out in Note 1. As stated on page 7, the directors are responsible for the preparation of financial statements, which give a true and fair view of the state of affairs of the company and of its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the state of the company's financial position as at 31 December 2005 and the results of operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the Tanzania Companies Ordinance.

Signed by:

KPMG
Certified Public Accountants
Dar es Salaam

Date: 3 March 2006

NBC LIMITED

**INCOME STATEMENT
for the year ended 31 December 2005**

	Notes	2005 Tzs million	2004 Tzs million
Interest and similar income	2	37,991	27,500
Interest expense and similar charges	3	<u>(3,063)</u>	<u>(2,064)</u>
Net interest income		34,928	25,436
Net (increase)/decrease in provision for impaired advances	13.6	<u>(43)</u>	<u>2,276</u>
Income from lending activities		34,885	27,712
Non-interest income	4	<u>21,502</u>	<u>19,525</u>
Operating income		56,387	47,237
Operating expenses	5	(30,638)	(27,901)
Net release of provisions	6	341	355
Recoveries on behalf of the Government of Tanzania	7	<u>(1,037)</u>	<u>(5,208)</u>
Net income before taxation		25,053	14,483
Taxation	8	<u>(7,049)</u>	<u>(3,532)</u>
Attributable income		18,004	10,951
Earnings per share (Tzs)	12	18,004	10,951
Staff complement		801	794

NBC LIMITED
BALANCE SHEET
as at 31 December 2005

	Notes	2005 Tzs million	2004 Tzs million
Assets			
Cash and short term asset s	9	188,046	150,896
Cheques and items for clearance		16,455	15,604
Treasury bills	10	106,542	67,143
Government bonds	11	16,091	28,970
Advances to customers	13	278,311	177,909
Other assets	15	6,305	4,762
Property and equipment	16	17,092	15,305
Total assets		<u>628,842</u>	<u>460,589</u>
Liabilities			
Deposits and current accounts	17	533,608	372,208
Placement from other banks		1,581	1,277
Deferred tax	18	1,302	1,457
Other liabilities	19	<u>35,997</u>	<u>42,797</u>
Total liabilities		<u>572,488</u>	<u>417,739</u>
Share capital	20	10,000	10,000
Share premium	20	2,000	2,000
Accumulated reserves		<u>44,354</u>	<u>30,850</u>
Shareholders' funds		<u>56,354</u>	<u>42,850</u>
Total liabilities and shareholders' funds		<u>628,842</u>	<u>460,589</u>
Contingent liabilities	21	<u>48,462</u>	<u>37,836</u>

The Board of Directors approved the annual financial statements on pages 9 to 32 on 3 March 2006 and was signed on its behalf by:

Johann de Wet
DIRECTOR

Christo de Vries
MANAGING DIRECTOR

Ami Mpungwe
DIRECTOR

Blandina Nyoni
DIRECTOR

Notes and related statements forming part of these annual financial statements appear on pages 13 to 32. The Report of the independent auditors is on page 8.

NBC LIMITED

**CASH FLOW STATEMENT
for the year ended 31 December 2005**

	Notes	2005 Tzs million	2004 Tzs million
Cash retained from operating activities			
Net income before taxation		25,053	14,483
Adjustments to reconcile net income to net cash provided by operating activities: -			
Allocation to Government of Tanzania		1,037	5,208
Depreciation charge		2,312	2,394
(Profit) on disposal of property and equipment		<u>(29)</u>	<u>(1,283)</u>
		28,373	20,802
Taxation paid	25	(6,843)	(4,607)
Increase in funds held for regulatory purposes		(12,874)	(4,500)
Increase in net advances to customers		(100,402)	(30,285)
(Increase)/decrease in other assets		(451)	528
Increase in deposit and current accounts		161,400	22,116
(Decrease)/increase in other liabilities		(6,956)	5,259
(Increase) in treasury bills		<u>(22,585)</u>	<u>(3,507)</u>
Net cash inflow from operating activities		<u>39,662</u>	<u>5,806</u>
Cash outflow in investing and financing activities			
Purchase of property and equipment		(4,385)	(3,900)
Proceeds from sale of property and equipment		315	1,667
Net acquisition of Government bonds		(11,493)	-
Net proceeds from redemption of Treasury bills		26,172	591
Proceeds from redemption of Government bonds		(2,837)	2,373
Dividends paid to members of the bank		<u>(4,500)</u>	<u>(9,000)</u>
Net cash inflow/(outflow) from investing and financing activities		<u>3,272</u>	<u>(8,269)</u>
Net increase/(decrease) in cash and cash equivalent		<u>42,934</u>	<u>(2,463)</u>
Cash and cash equivalent at the beginning of the year	26	<u>154,772</u>	<u>157,235</u>
Cash and cash equivalent at the end of the year	26	<u>197,706</u>	<u>154,772</u>

NBC LIMITED

**STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2005**

	Note	Share capital Tzs million	Share premium Tzs million	Recapitalisation reserve Tzs million	Distributable reserves Tzs million	General risk reserve Tzs million	Regulatory reserve Tzs million	Total Tzs million
Balance at 31 December 2003	20	10,000	2,000	6,817	20,001	1,472	1,196	41,486
Restatement-Portfolio impairment (Note 30)		-	-	-	(587)	-	-	(587)
Balance at 1 January 2004		10,000	2,000	6,817	19,414	1,472	1,196	40,899
Bonds redeemed		-	-	(6,817)	6,817	-	-	-
Transfer to Regulatory reserve		-	-	-	(189)	-	189	-
Dividend paid		-	-	-	(9,000)	-	-	(9,000)
Net income for the year		-	-	-	10,951	-	-	10,951
Transfer to general risk reserve		-	-	-	1,472	(1,472)	-	-
Balance at 31 December 2004	20	10,000	2,000	-	29,465	-	1,385	42,850
Bonds redeemed		-	-	-	-	-	-	-
Dividend paid		-	-	-	(4,500)	-	-	(4,500)
Transfer to Regulatory reserve		-	-	-	-	-	-	-
Transfer to Distributable reserve		-	-	-	927	-	(927)	-
Net income for the year		-	-	-	18,004	-	-	18,004
Balance at 31 December 2005	20	<u>10,000</u>	<u>2,000</u>	<u>-</u>	<u>43,896</u>	<u>-</u>	<u>458</u>	<u>56,354</u>

Recapitalisation reserve

The recapitalisation reserve was created during privatisation when the Government of Tanzania issued special Government bonds amounting to Tzs 34,569 million to recapitalise the bank to an agreed net asset value. The recapitalisation reserve is distributable upon the realisation of the underlying securities, or utilisation subject to a shareholder agreement. The full amount has been allocated to distributable reserves in 2004.

General risk reserve

This represented a one percent allowance of unclassified loans and advances which has been retained as a non-distributable reserve for the purpose of compliance with regulation 28 of the South African Reserve Bank. As a result of adopting International Financial Accounting Standards (IFRS) this reserve has been replaced by the regulatory reserve as explained below.

Regulatory reserve

The regulatory reserve is a non distributable reserve reflecting any shortfall between the provision for non performing advances as required by the Bank of Tanzania and the South African Reserve Bank, and the provision for impairment of advances as required in terms of the banks accounting policy and more specifically IAS39.

NBC LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2005

1. PRINCIPAL ACCOUNTING POLICIES

1.1 General information

NBC Limited is a bank domiciled in Tanzania. The address of the Bank is P.O.Box 1863 Dar-es-Salaam Tanzania.

The Bank's financial statements for the year ended 31 December 2005 have been approved for issue by the Board of Directors on 3 March 2006.

1.2 Basis of accounting

NBC Limited's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

Note 30 to the financial statements provide an analysis of the adjustments effected to restate the opening retained income at 1 January 2004 and the comparative financial statements to give effect to the change in accounting policy with regard to portfolio impairment.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities held at fair value through profit or loss and all derivative contracts.

The following accounting policies have been applied consistently to both periods presented in these financial statements.

1.3 Interest and similar income and interest expense and similar charges

For all financial instruments measured at amortized cost, interest income is recognized in the income statement using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument including all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

1.4 Fees and commission income

Fees and commission income are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and are recognized as an adjustment to the effective interest rate on the loan.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

1.5 Property and equipment

Property and equipment are stated at historical cost. Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of items of property and plant and equipment, as follows:

Buildings	3.3% p.a.
Machinery and equipment	15% p.a.
Furniture and fittings	10% p.a.
Motor vehicles	25% p.a.
Computer equipment and software	20% p.a.

The assets residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An assets carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use.

1.6 Financial assets

The bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets.

Financial assets at fair value through profit or loss

Financial assets are classified in this category if acquired principally for the purpose of selling in the short term or if so designated on initial recognition by management. Derivatives are also categorised as held for trading unless they are designated and qualify as hedging instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise as a result of the bank providing money, goods or services directly to a debtor with no intention of trading the receivable.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the banks management has the positive intention and ability to hold to maturity. If the bank is to sell an amount of held to maturity assets, which is not insignificant, the entire category could be tainted and reclassified as available for sale.

Available for sale

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit and loss, held to maturity and available for sale assets are recognized on trade date, the date on which the bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transactions costs for all financial assets not carried at fair value through profit and loss.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

Subsequent measurement on financial assets

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently measured at fair value. Loans and receivable and held to maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in fair value of the “financial assets at fair value through profit and loss” category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized directly in equity until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit and loss. However interest calculated using the effective interest rate is recognized in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the bank establishes fair value by using valuation techniques and use of recent arm’s lengths transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

1.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

1.8 Impairment of financial assets

Assets carried at amortized cost

At each balance sheet date the bank assesses whether there is evidence that a financial asset is impaired. A financial asset is impaired if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at fair value

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets is impaired. If any such evidence exists for available for sale assets, the cumulative loss; measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit and loss is removed from equity and recognized in the income statement.

If in subsequent period, the fair value of the instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

Unidentified impairment

In addition to the impairment estimated for assets with recognized objective evidence of impairment, an estimate is made for impairment associated with those assets in the balance sheet that are impaired, but for which objective evidence of this impairment is not yet available.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

Establishing the impairment levels associated with assets that are impaired but where objective evidence is not yet available involves two steps. The first step is to estimate the level of impairment in each portfolio based on:

- Experience of the length of time that it takes for objective evidence to become apparent, known as the emergence period, after the asset has become impaired.
- Statistical techniques that estimate the proportion of assets in each portfolio that are likely to display objective evidence over the emergence period.

The second step takes these estimates of assets that will display objective evidence of impairment over the emergence period and applies the same techniques previously described to establish the level of impairment appropriate to each asset type.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual arrangements of the assets in the bank and historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

All impaired loans and advances are reviewed on a regular basis and any changes to the amount and timing of the expected future cash flows compared to previous estimates will result in a change to the charge for impairment of advances in the income statement. Changes in interest rates will also result in changes to the impairment of advances charge in respect of impaired variable rate loans.

To the extent that the impairments created by the banking operations of the bank are insufficient to meet the minimum regulatory provision, such shortfall is accommodated by a transfer of the applicable after-tax amount from distributable to regulatory reserve.

1.9 Leases

The leases entered into by the bank are operating leases and total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognized as an expense in the period in which termination takes place.

1.10 Financial Liabilities

Borrowings are recognized initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between the proceeds net of transaction costs and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

1.11 Contingencies and commitments

Transactions are classified as contingencies where the bank's obligations depend on uncertain future events.

Items are classified as commitments where the bank commits itself to future transactions if the items will result in the acquisition of assets.

1.12 Income tax

Income tax payable on profits, based on the applicable tax law in Tanzania, is recognized as an expense in the period in which the profits arise.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

Deferred tax is provided in full on all temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax is not computed on the difference between the provision for impairments and allowable tax deduction. The difference is considered permanent in nature due to uncertainty in relation to the deductibility of provisions.

Deferred tax is also not computed on the difference between the wear and tear for buildings and the allowable tax deduction. The difference is considered permanent in nature.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax is charged to the income statement except to the extent that it relates to a transaction that is recognized directly in equity.

Deferred tax related to fair value re-measurement of available for sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the income statement together with the deferred gain or loss.

The effect on deferred tax of any changes in tax rates is recognized in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred tax asset is recognized to the extent that is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized.

1.13 Provisions other than impairment of financial assets

Provisions are recognized when the company has a present legal or constructive obligation as result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

1.14 Employee benefits

The cost of all short-term employee benefits are recognized during the period in which the employee renders the related service. Obligations for contribution to the parastatal pension fund, which is a defined contribution scheme are recognized as an expense in the income statement as incurred.

1.15 Foreign currencies translation.

Functional and presentation currency

Items included in the financial statements of the bank are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in Tanzania shillings (Tzs) which is the bank’s functional and presentation currency.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement using the year end mid rate.

1.16 Trade and other receivables

Trade and other receivables originated by the bank are stated at cost less provision for impairment.

1.17 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and all cash equivalent items maturing within 90 days from the date of acquisition including non-restricted balances with the Central Banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term government securities.

1.18 Financial liabilities

Non-derivative financial liabilities are recognized at amortized cost, comprising original debt less principal payments and amortizations

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

2. INTEREST AND SIMILAR INCOME

	2005	2004
	Tzs million	Tzs million
Government bonds	12,329	8,021
Bank balances (Foreign currency placements)	2,334	985
Bank balances (Local currency placements)	89	189
Commitment fees recognized based on the effective interest rate method	1,035	916
Advances to customers	<u>22,204</u>	<u>17,389</u>
	<u>37,991</u>	<u>27,500</u>

Commitment fees on loans and advances have been reclassified from non-interest income to interest and similar income and is recognized on the effective interest rate method

3. INTEREST EXPENSE AND SIMILAR EXPENSE

Current accounts	1,009	565
Savings accounts	1,097	923
Time deposits	<u>957</u>	<u>576</u>
	<u>3,063</u>	<u>2,064</u>

4. NON INTEREST INCOME

Commission	736	663
Drafts and transfers	830	836
Foreign Exchange dealings	7,316	6,565
Guarantees and acceptances	919	669
International banking fees	-	728
Letters of credit and telegraphic transfer	2,236	1,798
Maintenance and ledger fees	7,124	6,661
Profit on disposal of property and equipment	29	1,295
Revaluation gain/ (loss)	1,391	(216)
Other	<u>921</u>	<u>526</u>
	<u>21,502</u>	<u>19,525</u>

5. OPERATING EXPENSES

Staff costs:		
Salaries	7,065	6,708
Benefits	3,900	2,878
Retirement award	951	-
Contribution to Pension Fund	940	865
Others	560	799
Maintenance costs	2,981	2,687
Administration expenses	11,668	10,841
Sundry expenses	261	729
Depreciation	<u>2,312</u>	<u>2,394</u>
	<u>30,638</u>	<u>27,901</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

	2005	2004
	Tzs million	Tzs million
5. OPERATING EXPENSES (continued)		
<p>In December 2005, the bank settled a long-standing labour dispute. The dispute related to claims from employees for retirement benefits. The total settlement amount came to Tzs.3,789 million. Tzs.951 million was paid by the bank and the balance amounting to Tzs.2,838 million was paid by Government of Tanzania.</p>		
Net income before taxation is stated after charging:		
Auditor's remuneration		
▪ Current year	213	219
▪ Prior year	7	59
▪ Other services	44	20
Directors' emoluments		
▪ Services other than as a director		
▪ Executive salaries	356	516
▪ Executive benefits	211	155
▪ Services as a director		
▪ Executive	26	20
▪ Non – executive	74	72
6. NET RELEASE OF PROVISIONS		
Release in provision for contingencies (refer note 19.1)	376	1,018
Release (increase) in provision for other risk assets (refer note 15.1)	780	(61)
Write-off of other assets	<u>(815)</u>	<u>(602)</u>
	<u>341</u>	<u>355</u>
<p>The write off is in respect of other assets where recovery is remote.</p>		
7. RECOVERIES ON BEHALF OF THE GOVERNMENT OF TANZANIA PER THE ACQUISITION AGREEMENT		
Interest received	65	633
Recoveries of impaired advances	1,491	2,355
Movement in provisions	-	2,918
Net movement in provision for contingencies	545	1,050
Direct costs recovered	<u>(949)</u>	<u>(1,211)</u>
Subtotal	1,152	5,745
Less: commission earned by NBC on Government recoveries	<u>(115)</u>	<u>(537)</u>
	<u>1,037</u>	<u>5,208</u>

In terms of the agreement of 20 December 1999 between the Government of Tanzania and the Absa Group Limited, the bank is required to credit the net recovery on non-performing assets at 31 March 2000 (as defined in the agreement) to the Government bond account (refer note 11).

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

8. TAXATION

	2005	2004
	Tzs million	Tzs million
Tanzania normal tax		
Current tax expense	7,749	4,699
Overprovision – 2002		(1,483)
Overprovision – 2003	(545)	
Deferred tax relating to the origination of and reversal of temporary differences	<u>(155)</u>	<u>316</u>
	<u>7,049</u>	<u>3,532</u>
Tax rate reconciliation	%	%
Standard rate of Tanzania normal taxation	30.0	30.0
- Prior year overprovision	(2.2)	(10.2)
- Exempt income	(4.1)	(1.1)
- Expenditure not allowed	<u>4.4</u>	<u>5.5</u>
Taxation as percentage of income before taxation	<u>28.1</u>	<u>24.2</u>

Excluded from the calculation of current and deferred taxes are deductions in respect of;

- written off loans and advances, in relation to ring-fenced assets;
- provisions for impaired loans; and
- wear and tear on buildings.

These are treated as non-deductible permanent difference as the quantum and timing of this potential benefit is not clear, a deferred tax asset has not been recognized.

Subsequent to the receipt of final assessments for 2002 and 2003 it has been confirmed that certain of the claims in respect of ring fenced assets have been allowed by the Tanzania Revenue Authorities. As a result, excess tax provisions previously raised in 2002 and 2003 have been reversed.

Further potential deductions may exist which could result in tax credits, however as these will only crystallise when efforts to recover are abandoned and still then be subject to assessment.

The provision for tax for the current year is based on the regulations currently in force. The computation is however subject to the approval of the tax authorities.

9. CASH AND SHORT TERM ASSETS

Cash on hand	24,284	11,238
Balance with Bank of Tanzania:		
Current account – local currency	(984)	20,473
Current account – foreign currency	3,838	3,848
Statutory minimum reserve	46,626	33,752
Balances with other banks	<u>114,282</u>	<u>81,585</u>
	<u>188,046</u>	<u>150,896</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

10. TREASURY BILLS

	2005	2004
	Tzs million	Tzs million
<i>Held-to-maturity</i>		
Treasury bills maturing within:		
90 days	41,412	24,598
180 days	26,874	19,328
360 days	<u>38,256</u>	<u>23,217</u>
	<u>106,542</u>	<u>67,143</u>

The maturity is based on the remaining period from year-end to contractual maturity.

11. GOVERNMENT BONDS

Government bonds consist of Treasury bonds and Special Government bonds which are being held to maturity.

Special Government bonds	4,598	2,798
Treasury bonds	<u>11,493</u>	<u>26,172</u>
	<u>16,091</u>	<u>28,970</u>

Reconciliation of movements in Special Government bonds

Balance at the beginning of the year	2,798	10,335
Redemption received in cash	-	(2,373)
Correction	-	44
Government portion of retirement award to staff (refer note 5)	2,837	-
Collections transferred (refer note 7)	<u>(1,037)</u>	<u>(5,208)</u>
Balance at the end of the year	<u>4,598</u>	<u>2,798</u>

The maturity profile of the bonds is as reflected below:

<i>Held-to-maturity</i>		
Within 1 year	2,226	26,172
1-2 years	13,865	-
2-5 years	-	<u>2,798</u>
	<u>16,091</u>	<u>28,970</u>

The Government of Tanzania issued Special Government bonds in March 2000 to recapitalise the bank. Recoveries made, net of tax, on behalf of the Government of Tanzania have been reducing this bond (refer note 7).

Interest is calculated using the simple average interest on ninety-one day treasury bills for the previous three-month period. The bonds are redeemable from 30 September 2001 in twelve semi-annual equal instalments. Special Government bonds of Tzs 4,746 million were redeemed during the year (2004 - Tzs 4,746 million) utilizing collection money from ring fenced assets.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

12. EARNING PER SHARE

	2005	2004
	Tzs million	Tzs million
Profit attributable to equity holders of the company	18,004	11,069
Weighted average number of ordinary shares in issue	1,000,000	1,000,000
Basic earnings per share (Tzs)	18,004	11,069

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the bank by the weighted average number of ordinary shares in issue during the year.

13. ADVANCES TO CUSTOMERS

13.1 Net advances

Commercial advances	280,671	180,409
Advances to small and medium enterprises	100	-
Personal advances	1,288	-
Staff loans and advances	<u>2,517</u>	<u>2,266</u>
Gross advances	284,576	182,675
Less: Impairments (refer note 13.3)	<u>(6,265)</u>	<u>(4,766)</u>
Advances to customers net of impairments	<u>278,311</u>	<u>177,909</u>

13.2 Concentration of gross advances

By sector

Agriculture	33,254	10,920
Construction	6,421	7,830
Electricity	4,531	714
Finance	30,055	18,888
Manufacturing	81,853	62,417
Mining	12,299	2,331
Services	6,772	5,416
Transport	19,448	15,356
Wholesale	<u>89,943</u>	<u>58,803</u>
Gross advances	<u>284,576</u>	<u>182,684</u>

13.3 Movement in impairment of loans and advances

Balance at 1 January	4,766	7,946
Increase (decrease) in impairment during the year (note 13.4 + 13.5)	<u>1,499</u>	<u>(3,180)</u>
Balance at 31 December	<u>6,265</u>	<u>4,766</u>

13.4 Movement in net impairment of loans and advances

Balance at 1 January	2,903	5,851
Increase (decrease) in net impairment during the year	<u>1,274</u>	<u>(2,948)</u>
Balance at 31 December	<u>4,177</u>	<u>2,903</u>

13.5 Movement in interest in suspense

Balance at 1 January	1,863	2,095
Increase (decrease) in net impairment during the year	<u>225</u>	<u>(232)</u>
Balance at 31 December	<u>2,088</u>	<u>1,863</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

13.6 Net movement of impaired loans and advances

	2005	2004
	Tzs million	Tzs million
Bad debts written off	(245)	(3,032)
Decrease (increase) in impairment during the year (refer note 13.4)	(1,274)	2,948
Recovery of written off accounts	<u>1,474</u>	<u>2,360</u>
	<u>(43)</u>	<u>2,276</u>

14. NON-PERFORMING ADVANCES

	Outstanding balance	Security	Provision
	Tzs million	Tzs million	Tzs million
2005			
Overdrafts	6,333	7,598	6,073
Term loans	<u>192</u>	<u>645</u>	<u>192</u>
Total	<u>6,525</u>	<u>8,243</u>	<u>6,265</u>
2004			
Overdrafts	5,484	5,060	4,724
Term loans	<u>42</u>	<u>122</u>	<u>42</u>
Total	<u>5,526</u>	<u>5,182</u>	<u>4,766</u>

14.1 Sectoral analysis

	Outstanding balance	Security	Provision
	Tzs million	Tzs million	Tzs million
2005			
Agriculture	57	17	57
Construction	1,305	832	1,308
Electricity	-	-	-
Finance	498	1,500	253
Manufacturing	547	65	549
Mining	-	-	-
Services	216	34	204
Transport	117	153	123
Wholesale	<u>3,785</u>	<u>5,642</u>	<u>4,030</u>
	<u>6,525</u>	<u>8,243</u>	6,524
Less: IAS 39 specific impairment adjustment			(1,478)
Add: IAS 39 portfolio impairment provision			<u>1,219</u>
			<u>6,265</u>
2004			
Agriculture	67	109	67
Construction	1,319	959	1,300
Electricity	-	-	-
Finance	196	551	197
Manufacturing	249	291	274
Mining	53	55	53
Services	145	170	144
Transport	118	1218	86
Wholesale	<u>3,379</u>	<u>2,919</u>	<u>2,645</u>
	<u>5,526</u>	<u>5,182</u>	<u>4,766</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

15. OTHER ASSETS

	2005 Tzs million	2004 Tzs million
Bills receivable	1,342	1,432
Interest receivable	509	650
Prepaid taxation	115	476
Prepayments and sundry assets	<u>4,859</u>	<u>3,504</u>
	6,825	6,062
Less provisions (refer note 15.1)	<u>(520)</u>	<u>(1,300)</u>
	<u>6,305</u>	<u>4,762</u>

15.1. Movements on the provisions for other risk assets

Balance at 1 January	1,300	1,239
Provision raised (released) during the year	<u>(780)</u>	<u>61</u>
	<u>520</u>	<u>1,300</u>

16. PROPERTY AND EQUIPMENT

	Land and buildings (owner occupied) Tzs million	Capital work in progress Tzs million	Furniture and fittings Tzs million	Motor vehicles Tzs million	Computer equipment / software Tzs million	Total Tzs million
COST						
At 1 January 2005	13,148	457	6,875	1,194	8,982	30,656
Additions	60	3,248	622	76	379	4,385
Disposals	(534)	-	(135)	(150)	(65)	(884)
Transfers	1,033	(1,467)	193	203	38	-
Impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2005	<u>13,707</u>	<u>2,238</u>	<u>7,555</u>	<u>1,323</u>	<u>9,334</u>	<u>34,157</u>
DEPRECIATION						
At 1 January 2005	4,057	-	4,264	988	6,042	15,351
Charge for the year	139	-	487	127	1,559	2,312
On disposals	(255)	-	(133)	(148)	(63)	(598)
Impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2005	<u>3,942</u>	<u>-</u>	<u>4,618</u>	<u>967</u>	<u>7,538</u>	<u>17,065</u>
NET BOOK VALUE						
At 31 December 2005	<u>9,765</u>	<u>2,238</u>	<u>2,937</u>	<u>355</u>	<u>1,797</u>	<u>17,092</u>
At 31 December 2004	<u>9,091</u>	<u>457</u>	<u>2,612</u>	<u>206</u>	<u>2,939</u>	<u>15,305</u>

During the year the bank undertook a valuation of its land and buildings. As a result of this valuation it has been determined that the residual value is likely to be more to the current carrying value of land and buildings. As a result of this change in estimate of the residual value the bank ceased depreciating buildings.

A list of all the properties owned by the bank is available at the registered office of the bank.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

17. DEPOSITS AND CURRENT ACCOUNTS

17.1 Classification by type

	2005	2004
	Tzs million	Tzs million
Current accounts	182,658	133,556
Savings accounts	120,776	87,696
Time deposits	25,480	20,220
Foreign currency accounts	198,595	123,528
Unclaimed deposits	3,247	3,366
Cash collaterals for letters of credit	<u>2,852</u>	<u>3,842</u>
	<u>533,608</u>	<u>372,208</u>

18. DEFERRED TAX

Reconciliation

Balance at 1 January	1,457	1,141
(Decrease)/increase in temporary differences	<u>(155)</u>	<u>316</u>
Balance at 31 December	<u>1,302</u>	<u>1,457</u>

Composition of deferred tax

Accelerated depreciation	<u>1,302</u>	<u>1,457</u>
--------------------------	---------------------	---------------------

Deferred tax comprises exclusively of timing difference relating to different rates for depreciation and tax allowance for fixed assets (excluding Buildings).

19. OTHER LIABILITIES

Interbranch bills payable	5,230	2,530
Interbank bills payable	7,670	14,774
Clearing suspense	1,767	3,041
Interest payable	638	289
Government tax collection accounts	1,293	1,140
Provision for contingencies (refer note 19.1)	1,682	2,058
Provision for leave pay	230	189
Cheques sent for collection	12,129	14,357
Corporate Social Investment Fund	394	624
Others	<u>4,954</u>	<u>3,795</u>
	<u>35,997</u>	<u>42,797</u>

19.1 Provisions for contingencies

	2005	2004
	Tzs million	Tzs million
Balance at 1 January	2,058	3,076
(Decrease)/ increase in provision during the year (refer note 6)	<u>(376)</u>	<u>(1,018)</u>
Balance at 31 December	<u>1,682</u>	<u>2,058</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

20. SHARE CAPITAL AND PREMIUM

20.1 Share capital

Authorised share capital

5,000,000 ordinary shares of Tzs 10,000 each 50,000 50,000

Issued and fully paid up capital

1,000,000 ordinary shares of Tzs 10,000 each fully paid up 10,000 10,000

20.2 Share premium

Shares issued at a premium 2,000 2,000

21. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

Guarantees and indemnities 23,320 25,403

Letters of credit 25,142 12,433

48,462 37,836

Commitments

Undrawn formal standby facilities, unutilized overdraft facilities and other commitments to lend

36,943 20,205

Capital commitments - approved but not committed 13,078 9,574

Legal suits

There is pending litigation against the bank with claims totalling of Tzs 30 billion (2004 – Tzs 26 billion). Government of Tanzania will settle cuses that relate to the period prior to the privatisation of the bank. Of these approximately Tzs 10 billion (2004 – Tzs 4 billion) are for the account of the bank, with the balance in respect of ring-fenced assets, where the bank retains no risk of loss. A provision of Tzs 98 million has been raised in respect of likely losses. This is included in note 19.1.

Moshi branch robbery

An agreement exists between the Bank of Tanzania and the bank whereby the bank is facilitating the distribution and collection of currency in the United Republic of Tanzania. In terms of this agreement the bank is housing a number of Safe Custody Centres within its branch network. The currency held remains the property of the Bank of Tanzania and it is bank's responsibility to act as custodian.

On 21 May 2004 a robbery took place at bank's Moshi Branch, also a Safe Custody Centre. A total amount of Tzs.5,319 million was stolen of which Tzs.5,144 million belonged to the Bank of Tanzania and Tzs.175 million to the bank.

The bank recovered Tzs.158 million from insurance cover and the balance of Tzs.16 million was written off in 2004.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

21. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The Bank of Tanzania is still in the process of investigating their loss of Tzs.5,144 million and has indicated that until such time as the court cases are ongoing this matter will remain open ended.

22. INTEREST RATE RISK

The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarises the exposure to interest rate risk. Assets and liabilities are categorised by the earlier of contractual repricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items. All figures are in millions of Tanzania shillings.

2005	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Non- interest bearing	Total
ASSETS							
Cash and short term funds	91,154	22,021	2,563	1,398	-	70,910	188,046
Cheques and items for clearance	16,455	-	-	-	-	-	16,455
Government bonds treasury bills	15,235	24,679	26,867	38,969	16,883	-	122,633
Other assets	-	-	-	-	-	6,305	6,305
Advances to customers	278,311	-	-	-	-	-	278,311
Property and equipment	-	-	-	-	-	17,092	17,092
Total assets	401,155	46,700	29,430	40,367	16,883	94,307	628,842
LIABILITIES							
Customers' deposits	488,057	32,102	6,250	8,707	73	-	535,189
Deferred taxation	-	-	-	-	-	1,302	1,302
Other liabilities	-	-	-	-	-	35,997	35,997
Shareholder's funds	-	-	-	-	-	56,354	56,354
Total liabilities	488,057	32,102	6,250	8,707	73	93,653	628,842
Interest sensitivity gap							
2005	<u>(86,902)</u>	<u>14,598</u>	<u>23,180</u>	<u>31,660</u>	<u>16,810</u>	<u>654</u>	<u>-</u>
2004	<u>(88,805)</u>	<u>19,484</u>	<u>20,370</u>	<u>32,504</u>	<u>20,003</u>	<u>(3,556)</u>	<u>-</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

23. LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2005 to the contractual maturity date. All figures are in millions of Tanzania shillings.

	Up to 1 month	1 - 3 months	3 - 6 month	6 - 12 months	1 - 3 years	Over 3 years	Total
ASSETS							
Cash and short term funds	162,064	22,021	2,563	1,398	-	-	188,046
Cheques and items for clearance	16,455	-	-	-	-	-	16,455
Government bonds and Treasury bills	15,235	24,680	26,866	38,970	16,882	-	122,633
Other assets	6,305	-	-	-	-	-	6,305
Advances to customers	72,705	36,363	24,437	78,383	34,059	32,364	278,311
Property and equipment	-	-	-	-	-	17,092	17,092
Total assets	272,764	83,064	53,866	118,751	50,941	49,456	628,842
LIABILITIES							
Customers' deposits	488,057	32,102	6,250	8,707	73	-	535,189
Deferred taxation	1,302	-	-	-	-	-	1,302
Other liabilities	35,997	-	-	-	-	-	35,997
Shareholders' funds	-	-	-	-	-	56,354	56,354
Total liabilities	525,356	32,102	6,250	8,707	73	56,354	628,842
Net liquidity gap							
2005	<u>(252,592)</u>	<u>50,961</u>	<u>47,616</u>	<u>110,044</u>	<u>50,868</u>	<u>(6,897)</u>	<u>-</u>
2004	<u>(223,387)</u>	<u>101,322</u>	<u>35,387</u>	<u>70,956</u>	<u>43,972</u>	<u>(28,250)</u>	<u>-</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

24. CURRENCY RISK

The bank takes on exposure as a result of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The table below summarizes the exposure to foreign currency exchange rates risk at 31 December 2005. Assets and liabilities are categorised by currency. The off balance sheet gap represents the differences between the notional amounts of foreign currency financial instruments which are principally used to reduce the banks exposure to currency movements and their fair values.

All figures are in million of Tanzania shillings.

2005	US \$	GBI	Euro	ZAR	Other	Total
ASSETS						
Cash and balance with BOT	9,082	74	562	-	230	9,948
Cheques in the course of collection	-	-	-	-	-	-
Government securities	-	-	-	-	-	-
Placements with other banks	108,499	1,250	8,147	1,278	928	120,102
Other assets	-	-	-	-	-	-
Advances to customers	92,611	-	-	-	-	92,611
Property and equipment	-	-	-	-	-	-
Total assets	210,192	1,324	8,709	1,278	1,158	222,661
LIABILITIES						
Customers' deposits	195,297	1,070	7,034	-	3,835	207,235
Deposits from banks	169	-	65	-	-	234
Proposed dividends	-	-	-	-	-	-
Other liabilities	2,050	268	194	-	262	2,774
Shareholder's funds	-	-	-	-	-	-
Total liabilities	197,516	1,338	7,293	-	4,097	210,243
Net on balance sheet position						
2005	<u>12,676</u>	<u>(14)</u>	<u>1,416</u>	<u>1,278</u>	<u>(2,939)</u>	<u>12,417</u>
2004	<u>9,357</u>	<u>184</u>	<u>2,097</u>	<u>281</u>	<u>223</u>	<u>12,142</u>

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

		2005	2004
		Tzs million	Tzs million
25. TAX PAID			
Balance at 1 January		(476)	(301)
Current tax for the year		7,749	4,699
Overprovision-2002		-	(267)
Overprovision-2003		(545)	-
Balance at 31 December		<u>115</u>	<u>476</u>
Paid during the year		<u>6,843</u>	<u>4,607</u>
26. CASH AND CASH EQUIVALENTS			
All cash and cash equivalent items mature within 90 days			
Cash, forex, notes and coins		24,284	11,238
Balances with Bank of Tanzania		2,854	24,410
Treasury Bills maturing within ninety days		41,412	24,598
Deposits and balances with banking institutions		114,282	81,585
Cheques in the course of collection		16,455	14,218
Deposits and balances due to banking institutions		<u>(1,581)</u>	<u>(1,277)</u>
		<u>197,706</u>	<u>154,772</u>

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

The bank is required to maintain minimum cash reserves of 10% of deposits with the Bank of Tanzania. At 31 December 2005, the required cash position was Tzs 46,626 million (2004: Tzs 33,752 million). This amount is not available to finance the bank's day-to-day operations.

27. RELATED PARTY TRANSACTIONS

Identity of related parties

The holding company of the bank is the Absa Group Limited (Absa), incorporated in South Africa, which holds 55% of the company's ordinary share capital. Absa Group Limited is a subsidiary of Barclays Plc with shareholding of 56.4%.

The bank entered a bond recapitalisation agreement with the Government of Tanzania on privatisation in 1997. The Government of Tanzania has 30% shareholding in the bank.

The bank has no investments in subsidiaries, joint ventures or associates.

The directors are listed in the directors' report.

Material related party transactions

Related party transaction with the parent company:

The bank expensed the sum of Tzs 623 million during the year (2004 – Tzs 619 million) as fees due to Absa for technical assistance offered. The fees were negotiated at arms length and appropriate taxes paid thereon.

The bank maintains a nostro facility with Absa for transactional and trading purposes, at 31 December 2005 the nostro outstanding balance was Tzs 5,006 million (2004 – Tzs 15,962 million) All transactions, fees and interest between NBC and Absa were undertaken on an arms length basis.

NBC LIMITED
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2005

27. RELATED PARTY TRANSACTIONS (continued)

Related party transactions with the Government of Tanzania

The bank has no loans receivable from the Government of Tanzania during the year. The bank is recovering a portfolio of delinquent accounts on behalf of the Government of Tanzania per the acquisition agreement. The effect for the current year is disclosed in note 7. The remaining balance of these accounts is Tzs 30,688 million (2004 -Tzs 31,200 million).

Commissions on letters of credits opened for the Government of Tanzania are charged at market related rates.

Related party transaction with Board Directors

The bank granted a loan to one of the Board Directors with the outstanding balance as at 31 December 2005 amounting to Tzs.104 million (2004-Tzs 124 million).

28. CORPORATE SOCIAL RESPONSIBILITY FUND

NBC Car and Housing Loan Scheme Trust Fund was dissolved on 26 March 2004 with the residual value of Tzs 624 million. Following the dissolution, the Board elected to set aside this residual value as a fund to finance NBC's corporate social investment activities. The board at its 82nd meeting held on 12 December 2003 had approved the utilization of the amount available on social responsibility projects.

To ensure efficient and effective utilization of the amount, the bank has opened a Corporate Social Investment Fund (CSI) and transferred the residual amount of Tzs 624 million from the dissolved NBC Ltd Car and Housing Loan Scheme Trust Fund.

The Corporate Social Investment Fund requires the financial position to be reported to the Board on quarterly basis.

A total amount of Tzs 230 million had been utilized since inception to finance corporate social investment activities and the closing balance of the CSI fund was Tzs 394 million as at 31 December 2005 included under other liabilities (refer note 19).

29. COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

30. CHANGE IN ACCOUNTING POLICY

The table below reconciles retained income as previously reported to the restated retained income after the effect of a portfolio impairment, a new requirement under IAS 39, under International Financial Reporting Standards.

	31 December 2004 Tzs million	1 January 2004 Tzs million
Shareholders Funds as previously reported	43,555	41,486
Effect of portfolio impairment required in terms of IAS 39	(705)	(587)
Shareholders Fund (Restated)	<u>42,850</u>	<u>40,899</u>

With effect from 1 January,2005 the bank changed its method of accounting for impaired loans by raising a provision for portfolio impairment. The reason for this change was to comply with the amended IAS 39, Financial Instruments, Recognition and Measurement. In term of transitional provisions of this standard the comparative figures have been restated to ensure comparability.